

Message Text

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C O N F I D E N T I A L MEXICO 10774

EXDIS

FOR ROGERS AND SCHLAUDERMAN FROM JOVA

EO 11652: GDS

TAGS: MX EFIN EINV ECON

SUBJECT: REPORT ON BANKERS' MEETING WITH JLP

1. REGARDING AUG 13 MEETING OF US BANKERS WITH PRESIDENT-ELECT, JOSE LOPEZ PORTILLO (JLP) I SAW BUTCHER, PRESIDENT OF CHASE, AT BREAKFAST BEFORE MEETING AND AL CONSTANZO OF FIRST NATIONAL CITY, AT DINNER THAT EVENING.

2. BOTH SEEMED TO BE RELAXED AT THEIR RESPECTIVE EXPOSURES IN MEXICO. THEIR LOANS WERE ON DOLLAR REPAYMENT BASIS MOSTLY FOR TERM OF LESS THAN FIVE YEARS AND THEY HAD REASONABLE MIX BETWEEN PUBLIC AND PRIVATE SECTOR. THEY WERE LOOKING FOR SOME FURTHER EXPANSION ON "SELECTIVE BASIS". THEY RECOGNIZED THAT THEIR LOANS WERE IN EFFECT SUBSIDIZING "MEXICAN FLIGHT" CAPITAL BY MAKING IT POSSIBLE FOR GOM TO KEEP PESO AT ITS CURRENT RATE BUT WERE PHILOSOPHIC ABOUT THIS. THEY RECOGNIZED THAT MEXICO'S FUTURE HAD SOME UNCERTAINTIES AND THERE WAS EVEN SOME RECOGNITION THAT POSSIBILITY MIGHT ARISE OF MEXICO BEING UNABLE TO REPAY IN DOLLARS, ITS DOLLAR GUARANTEED LOANS. FOR THESE TWO BANKERS AND FOR CHEMICAL VICE PRES ENGLEHARDT, WHO SPOKE TO ME FEW DAYS EARLIER, MEXICO WAS STILL GOOD RISK, AND PROFITABLE ONE. IN THE CASE OF ALL THESE BANKS, MEXICO NUMBERED THIRD OR FOURTH IN SIZE ON THEIR LIST OF BORROWERS, EXCEEDED USUALLY ONLY BY UNITED

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KINGDOM AND BRAZIL.

3. I UNDERSTAND LUNCH WITH PRESIDENT-ELECT LOPEZ PORTILLO WAS ALSO ATTENDED BY TOP OFFICER OF EACH OF FOLLOWING: UNITED CALIFORNIA BANK, BANK OF AMERICA, MORGAN GUARANTEE, NATIONAL CITY, MELLON, PACIFIC CALIFORNIA AND MANUFACTURERS HANOVER. FROM MY CONVERSATION WITH CONSTANZA EVENING AFTER LUNCH I GATHERED THAT ATMOSPHERE WAS CORDIAL, THAT JLP MADE FAIRLY GOOD IMPRESSION AND WAS REASONABLY FRANK AND OPEN THOUGH HE SAID NOTHING THAT WAS UNEXPECTED. HE ADMITTED THAT THERE WERE PRESSURES ON PESO BUT SAID HE COULD HOLD IT AT PRESENT RATE PROVIDING WAGE INCREASES GRANTED BEFORE END OF YEAR WERE NOT EXCESSIVE. HE WAS PLEASED THAT MEXICO'S ECONOMIC GROWTH RATE HAD BEEN MAINTAINED AT REASONABLY SATISFACTORY LEVELS DESPITE WORLD-WIDE RECESSION; THIS GROWTH RATE, HOWEVER, DEPENDED ON CONTINUED INFLOWS OF FOREIGN CAPITAL BOTH THROUGH LOANS AND INVESTMENTS. IN REPLY TO QUERIES, JLP SAID MEXICO WOULD CONTINUE TO WELCOME FOREIGN INVESTMENT, AND WOULD DO SO EVEN MORE WARMLY IN FUTURE; HE STRESSED THAT MEXICO'S POLICY ON INVESTMENT WAS NOT RESTRICTIVE BUT RATHER "SELECTIVE" AS IT FELT THAT INVESTMENT SHOULD BE DIRECTED TOWARD PREFERRED NATIONAL GROWTH SECTORS. HOWEVER, HE MADE IT CLEAR THERE WOULD BE NO CHANGE IN FOREIGN INVESTMENT LAW.

4. CONSTANZA SAID THAT AFTER JLP LEFT, HE HAD ASKED FEW PROBING QUESTIONS WHICH HAD BEEN RECEIVED DEFENSIVELY BY BETETA; HE HAD CALMED HIM BY POINTING OUT THAT NO ONE WAS ASKING MEXICO TO REPAY ITS LOANS; HIS BANK IN ANY CASE THOUGHT MEXICO AS GOOD CUSTOMER AND INTENDED TO CONTINUE ITS LENDING OVER YEARS. NEVERTHELESS, HE SAID, BANKERS SEATED AROUND THAT LUNCHEON TABLE REPRESENTED SEVERAL BILLION DOLLARS OF EXPOSURE AND THEY HAD LEGITIMATE INTEREST IN KNOWING SOMETHING ABOUT HOW THEIR FUNDS WERE MANAGED. HOWEVER, BANKS STILL CONSIDERED MEXICO GOOD RISK ON SELECTIVE BASIS DUE TO ITS FUTURE PROSPECTS AND ALSO TO TECHNICAL EXPERTISE OF BANK OF MEXICO AND TREASURY.

5. CONSTANZA AND BUTCHER BOTH HAVE STATED BETETA AND CONFIDENTIAL

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HERNANDEZ HURTADO HIGHLY RESPECTED BY FINANCIAL COMMUNITY WHICH EARNESTLY HOPE THAT BOTH WILL BE ABLE TO STAY ON. PROSPECTS OF CONTINUING ARE BETTER FOR BETETA, THAN FOR HURTADO, THEY FEEL. ROMERO KOLBECK HEAD OF NATIONAL FINANCIERA, CONSIDERED PERSONALLY TOO AMBITIOUS TO BE RELIABLE.

6. FOLLOWING OBTAINED TODAY FROM CHASE LOCAL REPRESENTA-

TIVE: PETZRIK WHO TOLD US THAT BUTCHER AND OTHER CHASE PEOPLE ALSO SAW BETETA, ERNESTO HERNANDEZ HURTADO, HEAD OF MEXICAN CENTRAL BANK, AND ROMERO KOLBECK IN ADDITION TO JLP. CHASE GROUP FELT THAT JLP MADE POOR AND CONFUSED IMPRESSION, EITHER BECAUSE NOT BRIEFED OR DUE TO PREVIOUS DAY'S ATTACK ON SISTER. JLP MADE VAGUE POLITICAL RESPONSES TO QUESTIONS SIMILAR TO ECHEVERRIA, E.G. EXPECT PRIVATE SECTOR WILL HAVE TO PICK UP BURDEN. NONETHELESS, CHASE WILL CONTINUE INCREASE EXPOSURE INTO MEXICO BOTH PUBLIC AND PRIVATE AT RATE OF 100 MILLION DOLLARS PER YEAR THROUGH 1977. CHASE NOW EXPOSED TO ALMOST 800 MILLION DOLLARS AND THUS WILL GO TO ONE BILLION. IT WILL TRY TO GIVE MORE EMPHASIS TO PRIVATE SECTOR.

7. FURTHER COMMENTS BY CHASE REP ON MEXICO'S BALANCE MAY BE OF INTEREST. MEXICO WILL NEED IN 1976 ABOUT FOUR BILLION IN LOANS TO FINANCE CURRENT ACCOUNT GAP AND COVER INTEREST CHARGES. PROBLEM WILL BE MOST SEVERE IN 1978-80 WHEN PUBLIC SECTOR DEBT SERVICING ALONE WILL REQUIRE ABOUT 2. BILLION. GOM HAD HOPED REDUCE CURRENT ACCOUNT DEFICIT ON BORDER TRADE, TOURISM, AND OTHER TRADE FROM LAST YEAR'S 3 1/2 BILLION TO 2 1/2 BILLION BY END OF 1976 BUT NOW 3 BILLION SEEMS BEST ATTAINABLE. AFTER 1980 SITUATION SHOULD IMPROVE GREATLY AS CASH FLOW FROM INVESTMENTS IN OIL, AGRICULTURE, MINING, AND EVEN EDUCATION BEGIN TO PAY OFF. GOM ALREADY CUTTING BACK PUBLIC SPENDING, E.G., SEMI-AUTONOMOUS GOVERNMENT AGENCIES HAVE INDICATED TO BANKS THAT THEIR EARLIER EXPECTED FINANCING IS BEING REDUCED.

8. DE LA MADRID, DEPUTY OF TREASURY, STATED TO CHASE THAT GOM COULD DERIVE NO BENEFIT FROM DEVALUATION AT THIS TIME EXCEPT IN TOURISM. GOM IS NOT PREPARED NOW TO
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HANDLE A DEVALUATION UNLESS FORCED TO BY CAPITAL FLIGHT. MOREOVER, DE LA MADRID INDICATED THAT GOM WOULD NOT BE IN POSITION TO PREPARE NECESSARY MEASURES (E.G. TO RESTRAIN INFLATION, DAMPEN DOMESTIC DEMAND, HOLD DOWN WAGE INCREASES, AND STIMULATE EXPORTS) TO MAKE DEVALUATION EFFECTIVE PRIOR TO FIRST QUARTER 1978. CHASE REPRESENTATIVE INTERPRETED THIS TO MEAN THAT, BARRING UNFORESEEN CIRCUMSTANCES, GOM WILL MAINTAIN PRESENT EXCHANGE RATE UNTIL THAT TIME.
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